

Message Text

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FM AMEMBASSY SAN JOSE

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E.O. 11652: N/A

TAGS: EFIN, CS

SUBJECT: GOVERNMENT DISCUSSES POSSIBLE REVALUATION OF COLON

1. THE COSTA RICAN GOVERNMENT HAS ANNOUNCED THAT ONE OF THE MATTERS DISCUSSED AT THE MAY 24 MEETING OF THE CABINET WAS A POSSIBLE REVALUATION OF THE COLON IN THE FOLLOWING MONTHS, AS ONE OF THE ALTERNATIVES TO STABILIZE INTERNATIONAL MONETARY RESE

TES. FINANCE MINISTER MORERA SAID THAT THE QUESTION WOULD REQUIRE A MINUTE STUDY BY THE CENTRAL BANK WHICH WOULD TAKE SEVERAL MONTHS. PUBLIC COMMENT SO FAR FROM SUCH ORGANIZATIONS AS THE CHAMBER OF COMMERCE OF COSTA RICA AND THE NATIONAL ASSOCIATION OF ECONOMIC DEVELOPMENT (ANF) HAS BEEN UNIFORMLY NEGATIVE ON THE GROUNDS THAT THE GOVERNMENT SHOULD NOT CREATE UNCERTAINTY AND SPECULATION BY MAKING ANNOUNCEMENTS ON POSSIBLE MONETARY ACTIONS THAT HAVE NOT YET BEEN STUDIED. THE EMBASSY HAS CONTACTED A KNOWLEDGEABLE SOURCE WHO ATTENDS CENTRAL BANK MEETINGS ON HIGH POLICY MATTERS. HE STATES THAT THE IDEA OF A REVALUATION HAS NOT BEEN DISCUSSED WITHIN THE CENTRAL BANK.

2. COMMENT -- IT WOULD APPEAR THAT THE ANNOUNCEMENT OF A POSSIBLE REVALUATION OF THE COLON WAS CALCULATED MAINLY TO DRAW ATTENTION TO THE MAJOR IMPROVEMENT THAT HAS OCCURRED IN COSTA RICAN BALANCE OF PAYMENTS AND THE CONSEQUENT INCREASE IN FOREIGN CURRENCY

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RESERVES, WHICH NOW STAND AT \$187 MILLION. THE ANNOUNCEMENT SUCCESSFULLY DREW ATTENTION AWAY FROM A NEGATIVE DEVELOPMENT DISCUSSED AT THE SAME CABINET MEETING, THE NEED FOR A FURTHER INCREASE IN THE GOVERNMENT BUDGET, WHICH ALREADY SHOWS A 25 PERCENT DEFICIT. THE INCREASE WOULD BE USED TO PAY THE SALARY INCREASES FOR PUBLIC EMPLOYEES AND OTHER NECESSARY EXPENDITURES THAT WERE LEFT OUT OF THE APPROVED BUDGET.

3. SUGGESTING THAT COSTA RICA'S ECONOMIC PROSPECTS HAVE SO IMPROVED THAT IT MIGHT BE POSSIBLE TO REVALUE THE COLON IS A USEFUL, FAVORABLE PIECE OF PUBLICITY AT A TIME WHEN THE ODUBER GOVERNMENT IS UNDER SEVERE ATTACK ON THE CORRUPTION AND VESCO ISSUES. ALTHOUGH COSTA RICA IS NOW RAPIDLY INCREASING ITS INTERNATIONAL RESERVES, ITS INTERNATIONAL ACCOUNTS WOULD NOT EVEN BE AN EQUILIBRIUM BUT FOR THE FAVORABLE EFFECTS OF HIGH COFFEE PRICES AND THE HEAVY SURCHARGES ON UNESSENTIAL IMPORTS THAT WERE IMPOSED IN 1975 AND 1976. IF THE GOVERNMENT WISHED TO ELIMINATE THESE SURCHARGES, IT WOULD PROBABLY HAVE TO DEVALUE THE COLON RATHER THAN REVALUE IT UPWARD. HOWEVER, THE SURCHARGES, EVEN

THOUGH THEY ARE ON TOP OF ALREADY HIGH CENTRAL AMERICAN TARIFFS, WILL PROBABLY BE DIFFICULT FOR THE GOVERNMENT TO ELIMINATE, GIVEN THE GOVERNMENT'S NEED FOR REVENUE. THE GENERAL PATTERN IN COSTA RICA IS THAT TAXES, ONCE IMPOSED, ARE RARELY ELIMINATED.

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